Assuring the integrated report: Insights from auditors and preparers

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Abstract

Purpose: This research uses the principles provided by International Standards on Auditing (ISA) and International Standards on Assurance Engagements (ISAE's) to develop three possible models for the assurance of the integrated report.

Design/methodology/approach: Due to the absence of academic research dealing directly with the assurance of all or part of an integrated report, an exploratory research design is employed. Semi-structured interviews with twenty audit experts and preparers are used to explore possible approaches for providing assurance over the information included in companies' integrated reports.

Findings: Three assurance strategies are discerned. A segregated assurance model concentrates only on the audit of financial statements and reporting inconsistencies between the financial statements and other information contained in an integrated report to those charged with an organisation's governance. An integrated approach to 'assurance' relies on different systems of checks and balances, which include external and internal audit services, to provide boards of directors with a basis for accepting responsibility for their organisations' integrated reports. Finally, a Delphi-inspired model relies on a panel of experts to express an opinion on the methodology used to prepare reporting entities' integrated reports.

Research limitations/implications (if applicable): The study examines broadly three approaches for assuring an integrated report. The development of detailed application guidance is deferred for future research. The results are also preliminary in the sense that they are based on the views of a purposefully selected sample of audit experts and preparers. Other stakeholders have not been engaged.

Originality/value: This paper is the first to deal specifically with the calls for the assurance of the integrated report. Although the research does not provide a theoretical analysis of assurance practice, its' practical insights are relevant for auditors, preparers and standard-setters grappling with demand for some level of 'assurance' to be provided over the integrated report.

Key words

Assurance, Combined Assurance; Integrated Reporting; International Standards on Auditing

1: Introduction

Existing auditing and assurance standards have developed in the context of expressing an opinion on the extent to which a specific subject matter has been compiled in terms of or complies in all material respects with, a given set of criteria (Simnett and Huggins, 2015). This is the case with audits and reviews of financial statements (International Auditing and Assurance Standards Board [IAASB], 2009b; IAASB, 2009m); engagements on information other than historic financial statements (IAASB, 2009k), assurance standards dealing specifically with sustainability reporting (AccountAbility, 2008) and engagements on non-financial indicators such as greenhouse gas emissions (IAASB, 2013). In each instance, the focus on the relationship between assertions, risk and materiality is defined according to well-established financial measures (such as profit before tax or return on equity) or an objective pre-determined benchmark which allows the practitioner to provide either a limited or reasonable level of assurance (IAASB, 2009a; Simnett and Huggins, 2015). When it comes to integrated reporting, however, the relationship between information, materiality and risk is more difficult to define.

In particular, the current integrated reporting framework is a principles-based document which does not prescribe ‘elements’ or ‘components’ of an integrated report – including how different capitals should be measured or presented – in the same way as International Financial Reporting Standards (IFRS) and US GAAP codify the preparation of financial statements (International Integrated Reporting Council [IIRC], 2013; Simnett and Huggins, 2015). Instead, an integrated report is the product of a subject assessment of an organisation’s business model and its ability to create value in the short- and long-term which takes into account both qualitative and quantitative measures of different capital transformations (IIRC, 2013; de Villiers et al, 2014; Atkins and Maroun, 2015). That the maturity of integrated reporting systems and processes varies among organisations and jurisdictions adds to the difficulty of concluding on the exact form and content of an integrated report, frustrating efforts to define a generally accepted set of criteria against which the integrated report can be objectively evaluated (Atkins and Maroun, 2014; IIRC, 2015; Simnett and Huggins, 2015).

The IIRC does not mandate the use of formal assurance processes when preparing an integrated report but, nevertheless, vests responsibility for high quality reporting with those charged with governance (IIRC, 2013, para 3.41) and states that the reliability of information is ‘enhanced by mechanisms such as robust internal control and reporting systems, stakeholder engagement, internal audit (or similar functions) and independent, external assurance’ (IIRC, 2013, para 3.40). Codes of corporate governance, and the preliminary findings from the IIRC's engagement with stakeholders, iterate the importance of assurance as a means of adding to the credibility of the integrated report and its value-relevance (IOD, 2009; IIRC, 2015). This is consistent with a large body of research which (while not dealing specifically with integrated reporting) confirms how attest functions add to the legitimacy of the broader corporate reporting system and can substitute for either a lack of understanding about how the expert system functions or a loss of trust in the aftermath of repeated corporate failures (Unerman and O'Dwyer, 2004; Black, 2008; Malsch and Gendron, 2011). Neither the professional nor the academic literature, however, describes a suitable alternate model of assurance which does not depend on a rigid application of predefined test procedures to conclude on the extent of compliance of the subject matter with a given set of standards (Maroun and Atkins, 2015; Simnett and Huggins, 2015).

In this context, the purpose of this paper is to develop an initial framework for the assurance of an integrated report. The intention is not to provide a theoretical explanation for how external auditors are able to expand their claims to expertise beyond the jurisdiction of financial statement audits (for details see O'Dwyer et al, 2011) or precisely why formal test procedures are able to confer legitimacy on the subject matter of an assurance engagement (for details see Humphrey and Moizer, 1990; Power, 1994). Instead, the research is more practical. It accepts the principles provided by International Standards on Auditing (ISA) and International Standards on Assurance Engagements (ISAE's) as providing a legitimate technical basis for exploring a modified approach to risk-based audit which may be appropriate for integrated reporting.

Grounding this paper in the pronouncements issued by the IAASB does run the risk of incorporating professional bias, including self-serving claims to expertise, in the results (Power, 2003, p. 392). Nevertheless, these standards are applied in multiple jurisdictions; provide a generally-accepted framework for describing 'assurance'; and are the product of extensive engagement with stakeholders and due process (Maroun, 2014; Maroun and Atkins, 2014a). As such, they provide a reasonable reference point for exploring alternate assurance models which are already rooted in legitimate audit discourse. This means that the results are more likely to resonate with practitioners and preparers. The paper's recommendations and do not require a significant reconfiguration of existing technologies of assurance, increasing the likelihood of their application. Finally, although the research is an exploratory study which does not engage with specific social, financial or economic theory, it should be relevant for the academic community by providing the first account of developments in assurance practice which can be the subject of future theoretical interrogation (cf Llewelyn, 2003).

The remainder of this paper is organised as follows: Section 2 uses guidance in the professional auditing and non-audit assurance standards issued by IAASB to provide a frame of reference for exploring alternate assurance models. Section 3 outlines the method; Section 4 presents findings and Section 5 concludes.

2: Framework

As explained by PricewaterhouseCoopers:

> 'The audit has played, and continues to play, a critical role in building trust in financial reporting. But today's broader assurance model is not always an easy fit with corporate reporting that is transitioning to a model that is broader, more forward-looking and more integrated' (2014).

Traditional assurance models often focus on quantitative information which can be easily subject to test procedures to confirm, for example, accuracy, completeness and correct allocation of a transaction or balance (Simnett and Huggins, 2015). Qualitative analysis, featured increasingly in most integrated reports, is more difficult to deal with (Maroun and Atkins, 2015) because the added subjectivity does not 'allow for the consistent evaluation or measurement of [the] subject matter within the context of professional judgement' (IAASB, 2009a, para 35). This is especially true when it comes to strategic and forward-looking analysis designed to explain how the business model generates sustainable returns (Eccles et al, 2012; Simnett and Huggins, 2015). For example, ISA's and ISAE's do not describe substantive procedures and tests of controls which provide sufficient appropriate evidence to support an opinion on the accuracy of management's forecasts, the appropriateness and completeness of identified risks and mitigation plans and the suitability of business strategies (IIRC, 2015; Maroun and Atkins, 2015).

In these instances, any opinion issued by the practitioner would be his own interpretation or analysis of the integrated report rather than a conclusion based on the evidence collected using objective test procedures. This does not, however, mean that existing professional assurance standards are irrelevant. On the contrary, the guidance provided by ISA's and ISAE's are useful for identifying challenges for assuring an integrated report and the broad characteristics of a modified assurance model which may be more suitable for this task.

Objective of the engagement

With an audit of financial statements, the objective is to obtain 'reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error' and to express an opinion on 'whether or not the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework' (IAASB, 2009b, para 11). Non-audit assurance engagements are similar. The aim is to provide either reasonable or limited assurance on the subject matter's compliance with a set of criteria (IAASB, 2009k). In both cases, engagements are carried out by independent practitioners exercising due care and skill 'to enhance the degree of confidence of the intended users…about the outcome of the evaluation or measurement of a subject matter against criteria (IAASB, 2009a, para 7; IAASB, 2009l; IAASB, 2009k).

Irrespective of the level of assurance provided, chosen criteria must be relevant, complete and neutral in order to 'contribute to conclusions that are clear, comprehensive and not subject to different interpretations' (IAASB, 2009a, para 36). The current integrated reporting framework does not provide guidance on the nature and extent of the procedures which would be required to conclude on whether or not the report deals adequately with the different types of capital transformations – and the interconnections between these – in order to provide a truly integrated assessment of value creation (IIRC, 2015). In other words, the Framework is insufficiently specific on recognition, measurement and reporting requirements (compared, for example, to IFRS) to provide the required 'criteria' necessary for a traditional assurance model. It is also difficult to define the reports as the subject matter of limited or reasonable assurance engagement. As they become more forward-looking, include additional non-financial information and move towards interpretive analysis of the business model, the precision with which specific assertions can be evaluated, measured and concluded on decreases (Atkins and Maroun, 2015; IIRC, 2015; Maroun and Atkins, 2015).

As a result, there is divergence on the possible scope of any engagement purporting to express an opinion on the whole or part of an integrated report (Simnett and Huggins, 2015). For example, some practitioners favour a systems-based approach where the aim is to test objective data and process accumulating the information used in an integrated report (IIRC, 2015) but excluding subjective assessments on the extent to which integrated thinking or business management is evidenced (Maroun and Atkins, 2015). Specific qualitative and/or quantitative information found in an integrated report, provided that this is historic and factual, could also be the subject matter of an assurance engagement which forms part of a broader combined approach to assurance which relies on internal audit, independent external auditors and monitoring and review by those charged with governance. An alternate view is that the audit process should continue to focus on the financial statements with those charged with an organisations' governance responsible for the validity and reliability of the integrated report (IIRC, 2015; Maroun and Atkins, 2015). In this context, the following issues need to be considered:

- The objective of an assurance engagement dealing directly or indirectly with an integrated report.
- The scope of the assurance engagement.
- The form of assurance provided and the implications this has for the criteria used to evaluate the report.

Risk assessment and test procedures

The ISA's require the auditor to 'perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels' (IAASB, 2009d, para 5). This forms part of a process of understanding the audit client, its business and reporting environment and internal controls and, ordinarily, includes an assessment of the regulatory and external business environment in which the organisation functions, as well as internal risk indicators such as the complexity of the client's operation, its governance structures, accounting policies and relevant internal controls over material balances, transactions and processes[1] (IAASB, 2009d, para 11).

In response to the assessed risk of misstatement, the auditor must 'design and implement overall responses to address the assessed risk of material misstatement at the financial statement level' (IAASB, 2009e, para 5) and carry out specific 'further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risk of misstatement at the assertion level' (IAASB, 2009e, para 6). This often includes tests of the design and operating effectiveness of internal controls complemented by analytical review and substantive tests[2] of detail over material balances and transactions (IAASB, 2009e). The intention is not to test every account but to use a combination of audit procedures, on a sample basis, to gain sufficient appropriate evidence to support a conclusion on the financial statements in the context of specific risks of misstatement (IAASB, 2009c; IAASB, 2009e; IAASB, 2009f; IAASB, 2009g).

[1] The auditor is expected to concentrate on the control environment, the client's risk-assessment processes, information systems underlying the financial reporting process and the specific controls in place over balances and transactions forming part of the financial statements, including the monitoring of those controls (IAASB, 2009d, para A49-A83)

[2] These are procedures 'designed to detect material misstatement at the assertion level and include tests of details (of classes of transactions, account balances and disclosures) and substantive analytical procedures' (IAASB, 2009e, para 4)

The exact nature of the audit work performed (substantive testing and tests of control), the timing of tests and the number of balances and transactions subject to testing is linked directly to the assessed risk of misstatement (IAASB, 2009c; IAASB, 2009e) but the procedures for obtaining audit evidence are standardised (IAASB, 2009f). These include, for example, inspection of records or documents; observations of the processes followed and procedures performed by a clients' personnel; recalculation of balances and totals; and re-performance of procedures or controls originally executed by a client's internal controls (IAASB, 2009f).

These procedures are well suited to a financial reporting context where information is mostly quantitative and measures can be subject to almost scientific verification (Humphrey and Moizer, 1990; Simnett and Huggins, 2015). Test procedures - where the unit of analysis is a single record, balance or transaction – are, however, unsuitable for examining the extent of integration between financial and non-financial metrics and are irrelevant for concluding on the validity and reliability of *forward-looking* value propositions contained in an integrated report (IIRC, 2015; Maroun and Atkins, 2015; Simnett and Huggins, 2015). Similarly, the concept of a dual risk model focused on the financial statement and assertion level is difficult to reconcile with an integrated business management philosophy which deemphasises factual reporting at the level of the transaction in favour of interpretive business analysis to demonstrate how the organisation plans to generate sustainable returns in the short-, medium- and long-term (see Massie, 2010; Atkins and Maroun, 2014; de Villiers et al, 2014; Simnett and Huggins, 2015). As a result, any risk-based assurance model focused specifically on the integrated report needs to consider the following:

- Redefining of 'risk of misstatement' (based on quantitative assertions related to only the financial statements) to take into consideration the objective of integrated reporting, including the non-financial information being included in the reports.

- Procedures which would be suitable for addressing the risks associated with an integrated report.

- The relationship between these risks and the nature, timing and extent of procedures performed (including the extent to which the practitioner tests specific disclosures found in the reports or the systems and processes used to prepare that information.)

Reporting

An external audit culminates in a report which provides a reasonable (but not absolute) level of assurance on the client's financial statements. The opinion is in a positive form, stating whether or not the financial statements are prepared, in all material respects, with the relevant financial reporting framework (IAASB, 2009j). Non-audit assurance engagements are similar with a single report issued providing either reasonable (positive-form) or limited (negative-form) assurance (IAASB, 2009k). Given the limited use of objective reporting criteria in the IIRC's framework (IIRC, 2015); the interpretative construction of the integrated report (Atkins and Maroun, 2014); and difficulty of defining suitable test procedures (Simnett and Huggins, 2015), as discussed earlier, expressing a single 'audit' opinion on an integrated report poses a significant technical challenge. The exact nature of the report will also be affected by the form and content of a client's integrated report and the scope of any attest functions carried out by the practitioner (Maroun and Atkins, 2015; Simnett and Huggins, 2015). In this context, the following are important considerations:

- Is it possible to provide a single opinion on a client's integrated report and how would this opinion be worded?

- Is it necessary to follow a combined approach to assurance which leads to multiple professional opinions and, if so, how would the scope and outcome of the assurance services be communicated to users?

3: Method

The absence of academic research and professional guidelines dealing specifically with the assurance of the integrated report necessitated an exploratory research design (cf Brennan and Solomon, 2008; O'Dwyer et al, 2011). To understand the possible objectives of an assurance engagement focusing on all or part of an integrated report and how this impacts risk assessment, the type of procedures and the nature of any professional opinion given on the integrated report, the researcher interviewed twenty audit experts and twenty preparers.

Interviewees were purposefully selected and included audit partners, associate directors and senior managers from the Big Four audit firms in the researcher's home country (South Africa) and those responsible for the preparation and/or approval of the integrated reports of a sample of the largest listed companies found in this jurisdiction.

This was a practical limitation of the research. The researchers are based in South Africa making it cost ineffective to gain access to multiple interviewees in different jurisdictions. The focus on South African-based experts did not, however, detract from the validity and reliability of the findings and relevance of conclusions and recommendations for an international audience. In almost all instances, interviewees either work in multi-national organisations or have, at least, some experience dealing with stakeholders from different jurisdictions. All of the respondents were well versed in IFRS and the IIRC's framework, both of which are used by the preparers participating in the study to prepare financial statements and integrated reports, respectively. The interviewees have at least ten years' experience and were specifically informed that aim of the research was to explore general assurance practices which would be useful for an international accounting community, rather than specific to one jurisdiction.

At the same time, South Africa is widely regarded as a leader in integrated reporting (Solomon and Maroun, 2012). The country has been taking steps to drive more integrated corporate reporting since 2010 and its stock exchange was the first to introduce requirements to prepare an integrated report or provide the reasons for not doing so (IOD, 2009; Solomon and Maroun, 2012). In this way, South Africa offers a relatively well-established reporting environment where interviewees have had at least five years to either grapple with the preparation of integrated reports or engage with these corporate reports.

Purposeful selection of respondents does, however, means that not all stakeholders' views are taken into account when exploring the possibilities for assuring integrated reports; nevertheless, it ensures that only subject experts were engaged, adding to the quality of the results (see Creswell, 2009; Maroun and Solomon, 2013). Furthermore, the purpose of the study is to explore possibilities for the assurance of the integrated report, taking into consideration the technical challenges posed by existing attest models (Section 2). Examining how different stakeholders react to new forms of assurance is the subject of future research and not within the scope of this paper.

Data collection

Interviewees were invited to participate in the study by e-mail. To address the risk of rehearsed responses, respondents were not provided with detailed questions in advance but were given an outline of the nature and purpose of the research to provide them with an opportunity to reflect on current events and circumstances and their own experiences. In addition, to avoid individuals dominating group-based discussions or respondents' feeling uncomfortable with expressing their views, the researcher guaranteed anonymity and scheduled a time to meet each preparer and auditor individually. At the start of each interview, time was spent establishing rapport with participants and explaining that the research was being carried out for academic purposes only as a further means of encouraging open and detailed discussion on the assurance of integrated reports (adapted from Holland, 1998; Maroun and Atkins, 2014a).

To provide respondents with a sense of direction for the interviews, a short agenda was provided at the start of each session outlining the main discussion points which included the considerations identified in Section 2. To avoid leading research participants, or unintentionally restricting the range of issues being discussed, an extensive list of closed and open-ended questions was not used. Instead, the researcher commenced each interview with a general question about respondents' views on the need for a professional opinion on all or parts of an integrated report and then allowed the interviewees to lead the discussion. As a result, the sequence in which the discussion points were addressed and the details provided varied but, at a minimum, the researcher ensured that each of the main points in Section 2 was covered during the course of the interview (adapted from Holland, 1998; Maroun and Atkins, 2014a). I

In keeping with a semi-structured interview approach, the researcher avoided interrupting respondents. Where applicable, the researcher asked respondents to explain particular points or statements in different words, to give examples, or to speculate on whether or not their peers would hold similar views. This was designed to add to the detail of the discussion, ensure that the researcher was not misinterpreting responses and avoid 'script coherent expressions' (Alvesson, 2003).

Data analysis

The interviews lasted between 45 minutes and 2 hours and were digitally recorded. Interviews were carried out from 15 January 2015 to 30 October 2015. Each interview was transcribed and initial notes were made to summarise the responses to each of the discussion points. These notes were contrasted and interviewees' responses, ideas, recommendations and concerns were aggregated under the focus points identified in Section 2 which acted as broad theme or axial codes (adapted from Oakes et al, 1998; Leedy and Ormrod, 2001).

This process involved the researcher reading each transcript carefully several times, reflecting on the points raised by interviewees and identifying similarities and differences in the responses. These emerging issues (open codes) included, for example, specific technical difficulties encountered when assuring parts of the integrated reports; application and system-level controls in place, how different types of data are analysed and reported in the final integrated report and references to the application of specific provisions of the ISA's or ISAE's.

Open coding was an iterative exercise which took place during the data collection phase of the study. As each interview was completed, it was coded, taking into account the main issues highlighted in earlier recordings. In the initial stages, this led to the researcher re-coding transcripts several times as additional interviews were completed, although the extent of re-coding decreased as additional data was collected. After approximately 75% of the interviews were completed, a sense of saturation was obtained and no additional open codes were identified (adapted from Holland and Doran, 1998; Maroun and Atkins, 2014b; Atkins and Maroun, 2015). Once all of the interviews were complete and coded, the researcher re-examined the grouping of the open codes under the different theme headings (axial codes). These were not predetermined with the aim of 'tracing' interview findings to different theoretical elements, as is the case with most academic studies using a grounded approach. Instead, a more flexible method was adopted mindful of the practical focus of this research. Commentary aggregated under each axial code was considered to determine whether any broad assurance strategies were evident based on different opinions regarding the objective of any integrated reporting assurance engagement, risk assessment, assurance procedures or the nature of the final report(s). (As discussed in Section 4, this yielded 3 broad assurance strategies.)

Three safeguards were used to ensure validity and reliability of the data analysis process. Firstly, the researcher re-examined the open and axial coding as before generating the draft results. A sample of transcripts was also reviewed by an independent researcher to ensure consistent allocation of data under theme headings. Finally, the transcripts, coding and draft results were discussed with two colleagues at the researcher's home institution for accuracy, completeness and logic. Results are presented in Section 4

4: Results

The interviewees revealed three possible assurance strategies for addressing the information contained in an integrated report: (1) 'segregated assurance', (2) 'integrated assurance' and (3) 'Delphi-inspired' assurance. These depend significantly on respondents' views on the purpose of integrated reporting and any assurance services which, in turn, affect their assessment of how 'risk of misstatement' is interpreted and the nature of any specific attest procedures. The nature of any assurance engagement should also take into consideration the form of report which is issued and how the level of assurance is communicated to users of the integrated report. These were not always referred to directly by the respondents but emerged during the open and axial coding of transcripts, as discussed in Section 3. The number of transcripts with open or axial codes linked to the three assurance strategies is summarised in Table 1 as well as the main emphasis of the assurance models. Each of the assurance models is discussed in more detail below.

Table 1: Summary of responses

	Segregated assurance	Integrated assurance	Delphi-inspired assurance
Auditors	20	16	4
Preparers	16	18	6
Main emphasis of assurance	Audit of financial statements; other formal sources of assurance play only a complementary role. The reader is required to reach their own conclusions on the integrated report	A mixed approach relying on audits of financial statements and other historical information complemented by internal controls and other systems of governance at the client level. The practitioner does not, however, express an opinion directly on the integrated report.	Expressing a view on the analysis and interpretation of the data contained in an integrated report rather than providing an opinion on the report itself
Basis of assurance	Existing professional assurance standards only	Existing professional assurance standards complemented by other codes and recommended statements of best practice	Professional evaluation and analysis of panel of experts to reach an informed conclusion on the reliability of the interpretation/analysis processes being followed

Segregated assurance

Several respondents disagreed strongly with expressing any opinion on a client's integrated report. One argument is that the professional opinion, even if limited to parts of the integrated report, runs the risk of misleading users about the nature of the assurance provided. An audit partner explained as follows:

> 'For you to give assurance over the integrated report is impossible because, as I understand it, the aim is to give an idea of what is going to happen with your current resources and nobody can give assurance on that. You can't assure the future and, in fact, I think that it may be very misleading because that integrated report is the view of a team of a selected number of individuals and that will then be guided by other people in a certain direction which may be misleading…It would be better to form your own view of the future by looking at the current historic information' (Audit Partner).

There is a large body of research dealing with the audit expectation gap, particularly regarding the auditor's responsibility to detect fraud and report on a client's ability to continue as a going concern (for examples see Humphrey et al, 1992; Gold et al, 2012; Porter et al, 2012). Eliminating this expectation gap (currently limited to the audit of financial statements) has proven challenging (Sikka et al, 1998; Porter et al, 2012) and, for several respondents, the expectation gap would be aggravated by a requirement to express an opinion on a client's integrated report.

In addition to the technical challenge of designing suitable audit procedures to support a conclusion on subjective information contained in an integrated report (IIRC, 2015; Maroun and Atkins, 2015), respondents were concerned that any professional opinion (even if limited to factual content or the systems and processes used to prepare an integrated report) could be misinterpreted as confirmation that the client's business model and strategy is appropriate for generating sustainable returns. For both auditors and preparers, this would not only result in an increased risk of civil liability but would erode confidence in corporate reporting and existing attest functions over financial statements and related internal controls.

Other respondents approached the issue of assuring an integrated report from a different perspective but reached the same conclusion: that current audit models should not be expanded to deal specifically with the integrated report. They were of the opinion that financial statements are the keystone in the capital market system. They did not dispute the need for non-financial information included in an integrated report because it is either relevant for informing investment analysis and appraisals (cf de Klerk and de Villiers, 2012; Atkins et al, 2015; Marcia et al, 2015) or required to manage stakeholder expectations and avoid regulatory scrutiny (cf Gray, 2010; Atkins and Maroun, 2015). Financial capital transformations are, however, seen as the primary indicator of future value generation and sustainability. Additional information found in an integrated report is complementary and, in accordance with the principle of cost versus benefit, need not be subject to formal assurance. Anything more than the audit of financial statements can imply that the organisation is using limited resources on costly assurance engagements which were not explicitly requested by investors and which do not necessarily add value for these important stakeholders:

> ‘In the twenty years that I have been overseeing the annual - and now integrated reports - and meeting with stakeholder, I have never been asked why the other information in the integrated report is not assured. The investors don’t ask for it. We specifically raised it with them and the institutional guys told us that they don’t require it. We have also discussed this at the Board but you cannot justify to your shareholders why you spent two million assuring your ESG when even you can’t explain what the benefit is, other than saying that it’s a nice-to-have. At the end of the day, whether you do or don’t assure the non-financial stuff, the users of the integrated report deal with the information in the same way. So why incur the extra cost?’ (Director)

Auditors shared similar views, adding that the limited scope of any professional opinion would further detract from its usefulness:

> ‘You are not going to add anything. The assurance report is going to be so qualified that if you actually read it, it will mean very little. Not only that, their use is definitely going to be restricted and the report is basically going to give negative assurance which says that nothing came to my attention during some work which I did…It’s just not worth it’ (Associate Director: Audit).

Respondents confirmed the findings of the IIRC (2015): current technical standards do not provide guidance for testing qualitative information included in the integrated reports. Consequently, the scope of any testing must be restricted, limiting the benefit of the assurance service for third parties. For example,

> ‘On the strategy, you could say that something is the company strategy but that will be based mainly on what somebody at the company told you. Whether or not that's real assurance? But that's all you can do. You are certainly not going to be able to say whether or not it's a good or bad strategy. Nobody can say that. On the risks, you can probably say that these do qualify as risks. Whether that is very useful, I am not very sure. I also don't think that you would be able to say if those risks are complete and for me, that is the real value. The risks are not the ones that have been reported but the ones which are not reported’ (Audit Partner).

Adding to the limited practical benefits of these non-audit assurance engagements is the risk of the reports being misunderstood largely because of the wording of the opinion and accompanying limitations on the scope of the engagement. For example, referring to an engagement on carbon omissions or non-financial indicators in terms of ISAE’s, one expert explained:

> ‘You can’t say to the outside world that you are negatively expressing an opinion and that this is, somehow, different to a positive opinion. They look at you like you are mad. What do you mean? Some auditors don’t even know the difference [laughs]’ (Audit Technical).

Nevertheless, not all respondents dismissed the relevance of providing assurance on limited sections of an integrated report (cf Maroun and Atkins, 2015).

> ‘For example, if a company tells you how many people are in employment at the end of the year you could quite easily do audit procedures on that…If there is a framework for companies to report those kinds of things and they have to report in terms of that framework then, yes, you can express some sort of opinion based on that framework and the specific topics covered by that framework’ (Audit Partner).

Several auditors shared this view but reiterated that, where additional forms of assurance are provided, care needs to be taken to avoid creating the impression of expressing an opinion on the entire integrated report or on subjective commentary which may accompany the subject matter of a non-audit assurance engagement. This was not only about limiting the audit expectation gap (as discussed earlier) but about mitigating the risk of the auditor breaching independence by either attempting or even appearing to analyse the information contained in the report and provide a recommendation rather than a professional opinion in terms of ISA’s or ISAE’s:

> 'The auditor's responsibility is [at risk of being] mixed up with, or confused with, the actual responsibility of running the company. The auditor's responsibility is to ensure that the information which has been put in the public domain is factually correct within a particular framework. The company's directors and managers are responsible for the running of the company. I do not think that there is any mechanism where you can expect the auditor to be responsible for the integrated report and for running the company's business. That is, unfortunately, where I see all of this nonsense going' (Audit Partner).

For this reason, auditors were opposed to a dual reporting model. They felt that the audit opinion on the financial statement and the opinions from non-audit assurance engagements (if any) should be mutually exclusive. A proposal that these reports could be summarised by the practitioner to explain their interconnections to the users of the integrated reports was rejected. Instead, it was recommended that the existing professional guidance be modified slightly:

> 'All that you need is to have an extension to ISA 720 to explain that, not only must you look for matters which contradict the financial statements, but if there are objectively verifiable data in the reports which are inconsistent with the auditor's understanding of the business, that these be reported to those charged with governance[3]' (Audit Technical).

In other words, the assurance model is a segregated one. The audit of financial statements is the main purpose of the assurance framework. For respondents supporting this approach a reporting entity's internal systems, processes and controls are only a source of assurance to the extent that they form a part of an ISA or ISAE engagement. In addition, non-audit assurance engagements dealing with other information found in the integrated report must be separate from the audit of the financial statements. Any effort to aggregate the findings of these attest functions would, according to some respondents, add to users' misunderstanding of assurance services, offer little financial benefit for stakeholders and undermine the independence of the external auditor by creating the impression that he is offering a personal analysis of the integrated report or providing normative recommendations. As such, all that is needed is a limited modification of existing professional standards to confirm that the auditor must read the information contained in the integrated report for inconsistencies with the financial statements and report cases where

[3] Auditors agreed that this would be possible, given that the existing professional standards already require the practitioner to gain an understanding of the client's business, its operating environment and internal controls as part of the planning of the audit engagement (cf IAASB, 2009c)

the content of the integrated report is inconsistent with the auditor's understanding of the client's business. Standard-setters have no other responsibilities for the development of an assurance framework. By default, this means that the responsibility for concluding on the validity and reliability of the integrated report, and communicating this to stakeholders, rests solely with those charged with the client's governance.

Integrated assurance

Not all interviewees supported the segregated assurance model. Consistent with the argument that external audit is important for legitimising corporate reporting (Power, 2003), many preparers pointed out that assurance of the integrated report can add significantly to the credibility of the reporting paradigm and capital market (cf Humphrey, 2008; O'Dwyer et al, 2011; Maroun et al, 2014). It also serves a functional purpose, providing those charged with governance with a basis to conclude that the integrated report is reliable and evidence in support of their monitoring function[4]. As such, some respondents proposed an integrated approach to assurance where the objective is not to report on specific parts of the integrated report (including the financial statements) but to demonstrate how different sources of assurance are used collectively to ensure the reliability of the information found in integrated reports.

Advocates of this assurance model interpreted 'assurance' broadly. It is not only derived from formal engagements carried out according to ISA's or ISAE's by an independent auditor but also from the activities of internal audit, the integrity of underlying reporting systems and monitoring and review by those charged with the entity's governance. In this way, the focus of the integrated assurance model is different from a traditional audit engagement where an independent expert's professional opinion confers credibility on the subject matter (cf Power, 1994):

> 'Assurance has to come *from within the firm*…The assurance has to be about whether or not we have the right processes and that we are looking at the right things when we are developing a strategy and are we looking at doing all of the right things in terms of having the *right processes and protocols and controls* that we execute our strategy in terms of. *That includes performance data but it's not only the performance data that you are assuring*' (Audit Partner, emphasis added).

[4] This is in terms of statutes, codes of corporate governance or both, depending on the jurisdiction.

Several auditors and preparers reaffirmed the aims of integrated reporting: to ‘improve the quality of information available to providers of financial capital’ and ‘communicate the full range of factors that materially affect the ability of an organization to create value over time’ (IIRC, 2013, p. 2). For these respondents, the purpose of ‘assurance’ is not limited to expressing an opinion on the extent to which a subject matter has been prepared according to particular criteria. Instead, it needs to focus on providing a basis to support the analysis and interpretation of information being included in an integrated report and allow those charged with governance to accept responsibility for the report.

In this context, ‘risk of misstatement’ is not defined according to specific assertions developed for financial statements (see IAASB, 2009f; IAASB, 2009e). Instead, respondents felt that the focus should be on the risk of reporting information which does not explain how the organisation is managing different capital transformations in order to generate long-term value. Preparers identified several ‘integrated reporting risk indicators’ including: (1) assuming the identify and information needs of stakeholders without research to support these assumptions; (2) business models which are either not explained or are overly complex; (3) difficult-to-understand links between strategy and key performance indicators (KPI’s); (4) disclosure of non-financial information which is not linked to business strategy or risk; and (5) inadequate systems for collecting and reporting information on different capital transformations including the risk of inaccurate or incomplete data.

Preparers and auditors felt that ISA and ISAE engagements play a part in addressing some of these risk indicators but reaffirmed the technical challenges which preclude making parts of an integrated report the subject matter of a traditional assurance engagement (cf IIRC, 2015; Maroun and Atkins, 2015). As a result, an integrated approach to assurance is similar to a segregated assurance model in that professional opinions provided in terms of ISA’s and ISAE’s are restricted to information which is capable of objective testing per existing professional guidelines:

> ‘There are some parts of an integrated report which can’t be the subject of assurance but there are certainly parts that can and should be assured. For example, what do the key indicators actually show? You can’t conclude on whether or not they are the key indicators because that is a subjective issue but what the key indicators actually show can be the subject of assurance…and this can add value for stakeholders by confirming that the amounts shown are at least accurate’ (Preparer)

Auditors confirmed an increase in the extent of non-audit assurance services being provided to their clients. These do not express an opinion on the integrated report but are designed as objective tests of material information included in an integrated report where the respective clients feel that a professional opinion can add value:

> ‘We are using ISAE 3000 for the KPI’s and some of our clients are asking us to look at GRI application levels…We are trying to move away from just checking if they tick the boxes [referring to the GRI requirements] and are trying to look at giving assurance on, if they say they are doing A, B or C, whether or not they are actually doing [that]’ (Associate Director: Audit).

> ‘One of my clients…discloses, every year, the benefit projects which they have undertaken which will give you expected savings in the future because of improvements in their processes. [Our firm] does actually help them in terms of giving them some form of assurance over the data they are disclosing’ (Audit Partner).

> ‘In a manufacturing environment, information about health or worker safety statistics could be useful to unions or to the actual work or to the government officials because that information is factual. [Assurance] of those parts could have some value’ (Audit Partner).

These respondents stressed, however, that audit and ISAE engagements can only play a small role in ensuring the integrity and reliability of an integrated report. Many preparers were of the view that these traditional sources of assurance need to be complemented by a more qualitative approach to interrogating the integrated report. This often includes reviews of the systems and processes used to collect data included in the report and the analysis or management commentary accompanying that data:

> ‘Instead of trying to give formal assurance on all of the data, you need to look at the controls behind the whole thing. Shouldn’t we be looking – not at what the report is that you get at the end – but how you got there? Who was involved? Did they have the necessary mix of expertise? What information did they use? What did they base their conclusions on? What exactly are they saying? It is not necessarily an opinion on the outcome but rather on asking if you are comfortable with how management got there’ (Board Member).

Other preparers expressed similar views. They pointed out that external auditors already test controls over the preparation of the financial statements (cf IAASB, 2009e) which gives some evidence on an important component of an integrated report. This is often complemented by the work of internal audit which - in addition to supporting the testing of the financial systems by the external auditor (cf IAASB, 2009h) - covers non-financial systems and processes or can be easily expanded to include these parts of the organisation. Tests of the controls used to accumulate and report data included in the integrated report need not result in a published professional opinion. Respondents explained that it is often sufficient for results from internal and external auditors to be communicated to the Audit or Risk Committee which is then responsible for explaining how those charged with governance have satisfied themselves that the information found in the integrated report is reliable and complete.

Interestingly, both preparers and auditors felt that other corporate governance mechanisms 'give additional comfort that the integrated report is well prepared' (Audit Manager). One preparer, for example, explained how a multidisciplinary team of senior staff is responsible for reviewing drafts of the report for clarity, completeness and inconsistencies with their understanding of the organisation. An associate director in auditing revealed how internal and external auditors at a client test specific controls in different locations as part of a combined assurance model. This is complemented with a type of peer review system, in terms of which staff from different divisions review the collection and analysis of colleagues' data before submission to the head office team responsible for the information included in the integrated report. Draft reports are then presented to the different units at an informal conference to ensure consistency and completeness of data analysis and aggregation.

Both preparers and auditors pointed out that there is a direct relationship between the extent of the tests or procedures carried out; the materiality of the relevant content; and the risk of inaccurate, misleading or difficult-to-understand interpretations of data. For example, the more significant a particular part of the integrated report is for understanding the company's value creation process, the more formal tests over the systems preparing the data are carried out (by internal and/or external audit) and the more important it is for those charged with governance to interrogate thoroughly management's analysis and interpretation[5].

Nevertheless, respondents supporting the integrated assurance model conceded that the evidence from these procedures is not as conclusive or objective as that defined by ISA or ISAE's (see IAASB, 2009f; IAASB, 2009i; IAASB, 2009e). The purpose is not, however, to conclude definitively on whether or not the integrated report has been prepared in all material respects in accordance with the IIRC's framework. The aim is to demonstrate 'what controls

[5] Developing a detailed matrix of safeguards which can be used to mitigate the risk of inappropriate reporting and how the nature and extent of associated testing varies specifically as this risk changes will require more detailed consideration and is, therefore, deferred for future research.

or sense checks' are in place over the information which cannot be subject to the quantitative procedures prescribed by ISA's and ISAE's (Preparer). In other words, an increasingly qualitative assurance model – which concentrates on both the data and analysis of that data – reflects the interpretive construction of more mature integrated reporting.

As is the case with the proponents of the segregated assurance model, respondents proposing an integrated assurance framework were concerned about the auditor providing a professional opinion explaining how management has satisfied itself that the integrated report is reliable and complete. This is because of the risk of misleading users by creating the impression that the external auditor is attesting to the analysis of information in an integrated report. As a result, respondents concluded that the audit opinion (and related attest procedures) form part of an integrated assurance model but should be left unaltered[6]. In keeping with the internal focus of the assurance process, those charged with governance are responsible for explaining and reporting on the different forms of assurance on which they have relied before concluding that they accept responsibility for the integrated report. In most instances, it was recommended that this should be provided in the front sections of the report to provide users with an appropriate context when reading the remainder of the document. Interviewees also suggested that the form and content of this 'assurance report' should not be prescribed but should be left to management's discretion in order to allow sufficient flexibility for variations in the complexity of business models and relevant capital transformations.

Delphi-inspired assurance[7]

In general, those supporting a segregated assurance model did not object to the proposed integrated assurance framework. This was probably due to the fact that both approaches recognise the importance of the audit of financial statements and do not call for significant changes to existing professional standards. In particular, the suggestion that the auditor should read the integrated report for inconstancies with the financial statements and report these to those charged with governance does not amount to a paradigm shift in attest practices. It is also consistent with the integrated assurance approach of using peer review by experienced individuals in a position of authority to review subjective information

[6] They agreed that a limited amendment to ISA's to clarify that the auditor must read the integrated report for inconsistencies with the financial statements (as with proponents of the segregated assurance model) would be appropriate.

[7] Traditionally, a Delphi technique involves multiple rounds of data collection and feedback with a group of experts with the aim of generating a statistical consensus. A more qualitative approach involves detailed analysis of a phenomenon/subject matter and presentation of preliminary finds with a panel of experts to reach an informed conclusion (Novakowski and Wellar, 2008). This section of the findings uses a similar method in the context of assuring the integrated report.

contained in an integrated report. At the same time, although the integrated model interprets ‘assurance’ more broadly, it does not result in the provision of a professional opinion and, as explained by one auditor (who preferred a segregated approach), would probably lead to a more rigorous control environment; reduce the risk of misstatement in a financial reporting context and have little direct impact on technical provisions of the ISA’s.

A minority of interviewees, however, disagreed with the integrated assurance model. In general, these respondents reiterated that the technical limitations of ISA’s and ISAE’s make them unsuitable for concluding on the extent to which a corporate report provides an integrated assessment of the ability of an organisation to generate value. As a result, they confirmed that a more flexible approach to assurance could be useful and that this would rely on traditionally quantitative attest techniques (common in current audit and non-audit assurance engagements) complemented by qualitative methods for assessing the veracity of the data and analysis found in the integrated report. In their view, however, many of the procedures carried out in terms of an integrated assurance model are part of the corporate governance structures of the organisation and ‘not assurance in the truest sense’ (Preparer).

For these preparers and auditors, the execution of test procedures by an independent practitioner in accordance with professional standards is the essential ‘feature’ of assurance (see Chandler et al, 1993; Power, 2003; O'Dwyer et al, 2011). Related to this, and as explained by Power (1994; 1996; 1997), the audit opinion is a powerful symbolic representation of the application of technical procedures and professional judgement which confers legitimacy on the subject matter of the attest function. As a result, there were concerns that an integrated assurance model over-values internal review and analysis being carried out by an organisation’s agents and lacks the objectivity to be accepted as a credible means of reducing agency costs. Therefore, some preparers and auditors proposed that ‘integrated assurance’ be included as part of existing codes of corporate governance and recommended best practice for internal control design. A new framework is required to provide specific guidance on how to express an opinion on an integrated report. The exact content of this framework could not be determined but the interviews did provide some indication of the general approach for this third assurance model.

As with the integrated approach to assurance, preparers and auditors suggested that it would not be possible to conclude on, for example, the appropriateness of the reporting entity’s strategy, the completeness of its risks or its future prospects (cf Maroun and Atkins, 2015). Indirect assurance over the reliability of the integrated report - and its ability to communicate clearly how the organisation is creating value – is, however, provided by examining the appropriateness of the methodology used to prepare the report.

Consequently, ‘risk of misstatement’ relates to the interpretation of information found in the integrated report and the ease with which it can be understood by stakeholders. It is a function of the adequacy (scope) of the data collected to prepare the reports; the methods used to collect data; and the approach followed to interpret that data. In order to express an opinion on the integrated report, the practitioner would follow a similar approach to that recommended by ISA’s for gaining an understanding of a client when planning an audit of financial statements.

Firstly, the expert would need to understand the entity’s business model, associated risks, operational issues and generally accepted key performance indicators for the relevant sector or industry (cf IAASB, 2009d). Macro-economic indicators (cf IAASB, 2009d), current and merging social trends (cf Tregidga et al, 2014) and issues being raised in the popular financial press (see Brennan and Merkl-Davies, 2014; Loate et al, 2015) would also be taken into account to obtain a broad understanding of the context in which the integrated report has been prepared. Most auditors agreed that many of the risk assessment procedures recommended by ISA’s – such as enquiry with management, site visits and initial reviews of reporting systems and internal controls – could be adapted to gather the necessary information. The aim is not to express an opinion on these metrics but to provide the experts with sufficient context for analysing the integrated report to enable an informed assessment of whether or not material issues, which stakeholders would reasonably expect to be discussed, have been addressed. As part of this process, the experts would be able to identify those aspects of the business model, strategic direction, risk-management or capital transformations which are complex and at risk of either being explained inadequately or misinterpreted by users.

An obvious challenge is the high level of subjectivity involved when concluding on the content of the report and the characteristics of the information which could increase the risk of users not understanding the value creation process (cf Simnett and Huggins, 2015). Related to this, most audit teams are trained in the application of the relevant financial reporting and assurance standards and may not have a sufficient skills to make an informed judgement on the risk of the integrated report being incomplete or unreliable (Maroun and Atkins, 2015). Interviewees were, however, quick to point out that assessing the risk of misstatement in financial statements, determining materiality and designing suitable audit procedures to support the opinion on financial statements is far from a scientific process (cf Humphrey and Moizer, 1990). Although the assessment of an integrated report is more subjective than an audit or review of financial statements, it requires an application of professional judgment which may not be significantly different from the processes followed in audit or non-audit assurance engagements per ISA and ISAE's. In addition, some respondents suggested a type of Delphi methodology for reviewing the integrated report.

With an audit of financial statements, the practitioner ensures that the team has the necessary competency and resources to perform the engagement (IAASB, 2009l). This reduces the risk of misapplication of judgment, allows for adequate consultation and review and ensures high levels of audit quality (IAASB, 2009l; Maroun, 2014). By analogy, a panel of suitably qualified experts in, for example, financial reporting, risk-management, business strategy and non-financial reporting 'can bring their collective skills to bear on the integrated report' (Preparer). The purpose is not to reach statistical consensus but to ensure that the subjective information contained in the report and the methods used to construct the document are reviewed critically and debated by a team of knowledgeable experts.

Respondents in favour of this assurance model reiterated that the panel would not be able to 'test' the accuracy of content or confirm whether the organisation will be able to generate sustainable returns in the long-run. Instead, the panel debates: the breadth of analysis dealing with different capital transformations in the context of the organisation's business model and industry; the appropriateness of the different safeguards put in place by those charged with governance over material sections of the integrated report[8]; and the validity and reliability checks used to ensure that material interpretations are reasonable and complete. For example, one respondent gave some insight into how a modified Delphi technique could be used to review the identification of stakeholders.

Having gained a detailed understanding of the client, its reporting and operating environment and relevant macro-economic, social and environmental indicators, the preparer felt that industry experts would have formed initial views on important stakeholder groups. The panel then reviews the methods used to identify important stakeholders. Based on their understanding of the reporting entity and the respective industry, they debate whether or not these methods are appropriate to identify stakeholders and rank their importance. Where deficiencies are noted, the independent experts engage with management and those charged with governance. The panel re-deliberates until it has considered all relevant information to which it has access and can reach a consensus on whether or not it agrees with the stakeholder analysis *process.* This exercise would be repeated for each core section of the report according to how relevant it is for informing users' understanding of how the organisation generates value in the short-, medium- and long-term and, as such, the

[8] These internal controls or 'safeguards' are the sources of assurance in the integrated assurance model discussed earlier.

materiality of that information and the 'risk of misstatement' (in the context of this integrated reporting assurance model).

The intention is not to express an opinion on the information itself but only on the scope of the data used and the appropriateness of the techniques employed to analyse the data. Unlike a segregated or integrated approach to assurance, however, where either no opinion is provided or an overview of the different sources of assurance is given by those charged with governance, a Delphi-inspired model results in an independent professional's opinion on the methodology used to prepare the integrated report:

> 'You simply cannot express an opinion on what is going to happen tomorrow – that is impossible. But it may be possible to tell people that you have looked at the systems and the thought processes and that you have engaged with different people in the organisation to get a sense of whether they have put any thought into the integrated report and are not just writing fairy tales' (Audit Partner).

Preparers and auditors favouring this approach felt that it would provide higher quality evidence to users of the integrated reports about management's assessment and analysis process than the integrated model which vests too much discretion with boards of directors or their committees. It should, however, be pointed out that only a minority of interviewees supported the Delphi-inspired assurance model. It was also subject to considerable criticism.

Several auditors and preparers were concerned that the approach may be inefficient. For example:

> 'You are going to end up with a repeat performance of some of what was done for the audit…because the only parties that [really understand assurance] are the auditors…If you get [one audit firm] to do the annual financials and [another audit firm] to form this panel and look at the integrated report, they are going to replicate at least half of the planning and risk procedures and all that' (Audit Technical).

The use of an expert panel could also discourage stakeholder engagement and activism. For example, one audit partner explained how, rather than attend the AGM to ask for justifications for contentious information found in an integrated report, whether intentional or otherwise, the responsibility for interrogating management's analysis of the business model would rest with the panel of experts. In turn, this would require a review of personal liability exposure, especially where the panel includes the external auditor (as suggested by those respondents supporting the Delphi approach). In addition, it would be necessary to relax prohibitions on auditors rendering of non-audit services to their clients which may have a number of unintended consequences (examples dealing with the unintended consequences of regulation include:Cousins et al, 1999; Vakkur et al, 2010). Perhaps most important is the risk of adding to the audit expectation gap. Almost all respondents in favour of either the integrated or segregated assurance model were concerned that a dual reporting system, including one opinion on the financial statements and a second on the integrated report, adds to an already complex reporting environment and may be difficult for non-experts to interpret correctly. For example, a proponent of the segregated assurance model commented:

> 'The panel model is too complicated. How are you going to explain that to the layman? You can't say that you get [a panel of experts] to say that they have reviewed the information generally and debated it or some vague rubbish like that. It's not useful to them [the users] and it will mislead them. Auditing has taken years to develop and get the wording and procedures right and there are still those who don't understand what the audit report is telling them. [Advocates of using a Delphi-style approach for assuring the integrated report] are going to suffer to get people to figure out exactly what they did and what their report means [laughs]' (Audit Technical).

Added to this are the legitimacy consequences of involving parties, other than suitably trained auditors, in any processes resembling formal assurance:

> 'Remember that the audit profession has years of reputation to fall back on. It is a very well established profession and it commands respect. If you have anyone else trying to explain how they looked at the integrated report, I am not sure if they are going to be taken as seriously. Worse is if they are and we realise a year or two down the line that you had a fly-by-night consulting firm that didn't know what they were doing, giving an opinion to the members and users. They can discredit all the gains made by integrated reporting! (Preparer)'

In this context, most organisations relied on a segregated assurance strategy where the financial statements are audited and any other ISAE engagements are performed independently. There were, however, some cases of integrated forms of assurance being used to deal indirectly with the integrated report. This relies on a mix of formal assurance services by independent professionals and internal controls and processes and methodologies for supporting the interpretation and analysis contained in some integrated reports. With the integrated reporting process itself still under development (Simnett and Huggins, 2015), the exact direction taken by any assurance framework is still to be seen.

5: Conclusion

Financial statements provide a historic account of financial position, performance and cash flows which can be used by an informed user to reach conclusions about the amount, timing and uncertainty of the reporting entity's future cash flows (International Accounting Standards Board [IASB], 2010). In contrast, the integrated report is interpretively constructed and includes a mix of qualitative and quantitative information. It is designed to provide more subjective, forward-looking accounts of the organisation based on multiple types of capital transformations, rather than focusing specifically on prior changes in financial capital (IIRC, 2013; Atkins and Maroun, 2014). As a result, traditional assurance methods - articulated by the ISA's and ISAE's - do not provide a suitable framework for supporting a formal opinion on an integrated report (IIRC, 2015; Maroun and Atkins, 2015; Simnett and Huggins, 2015).

Maintaining the status quo is a possible solution. Some preparers and auditors believe that standard-setters should remain focused on only the audit of financial statements. Other information contained in an integrated report can, to the extent possible, be the subject of non-audit assurance engagements but the responsibility for concluding on the integrity of the integrated report should vest with the Board of Directors and not the external auditor.

An alternate perspective is similar in that it acknowledges the technical limitations of existing professional guidance to form an opinion on integrated reports due to their interpretive content. This integrated assurance model is, however, more flexible. It recognises the role played by formal sources of assurance to test objective information used in integrated reports, including the benefit of effective internal controls and internal audit functions. This needs to be complemented by the development of procedures, processes and methods which can be applied to ensure the validity and reliability of the interpretation and analysis found in most of these documents. While the external auditor does not express an opinion on the integrated report, those charged with governance are required to explain precisely how they have relied on different forms of assurance to conclude that the integrated report is reliable and complete.

An extension of this assurance framework sees the different sources of 'assurance' in the integrated model as part of a client's corporate governance systems. 'Assurance' is obtained from a collective assessment of the basis used to support the information found in an integrated report by a panel of independent experts. This approach recognises the fact that it is not possible for the auditor to attest to the accuracy of forward-looking or qualitative information with sufficient precision required for an ISA or ISAE engagement but that the practitioner can conclude on the rigour of the methodology used to prepare the report. As such, standard-setters should concentrate on developing a framework to give guidance on the composition of the panel; recommendations for understanding the reporting context and an explanation of a type of modified Delphi used to deliberate on the rigour of the method used to prepare the integrated report.

Additional research is, however, required to explicate how a combination of qualitative and quantitative procedures can be used either to ensure reliable analysis of data (in an integrated model) or to conclude on the reliability of an interpretively constructed integrated report (in a Delphi-type model). More work also needs to be done to provide a framework for determining what information in an integrated report is material, the risks associated with those components of the reports, and examples of specific procedures or methods which can be applied in response to identified risks. This study has provided only an initial outline of three possible approaches for dealing with the calls for assurance in connection with integrated reporting; the descriptions of each model are brief and the technical details still need to be developed. Once this has been completed, researchers must grapple with the cost and benefits of each assurance model; possible reactions from preparers and practitioners and the implications for a wider 'assurance' expectation gap.

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